

## Market Commentary

### Making Sense of Nonsense

Persistent global uncertainty and a slowdown in the non-mining sector saw the Reserve Bank leave interest rates unchanged at its August meeting. Despite the continued threat of short-term market weakness and should the global environment deteriorate further, Australia is well placed to handle this given its reasonably positive longer term fundamentals.

The US debt ceiling saga plagued the US economy in July, and despite an 11<sup>th</sup> hour agreement between political parties, Standard & Poor's (S&P) downgraded the US's AAA credit rating for the first time in history.

There was concerted action on all policy fronts (foreign exchange, fiscal and monetary) in Japan last month, in an effort to support the domestic recovery.

Economic developments in the Eurozone continued to be eclipsed by sovereign debt woes. The crisis is set to plague the region for some time, and will continue to weigh on the region's prospective economic prosperity.

China's central bank raised interest rates for the fifth time in nine months in July. The move came just days before news that inflation had accelerated to its fastest pace in three years.

### What's the long term impact?

July and August highlighted the significance of global geopolitical events currently at play. Global equities, in particular developed market equities, underperformed emerging market equities in July, driven firstly by pessimism towards the Eurozone fiscal situation deepening, and secondly by the US debt ceiling issue and eventual credit rating downgrade.

While the sharp fall in prices of risky assets currently appears to be based upon S&P's downgrading of US sovereign debt and fault lines appearing across Europe due to concerns about the debt overhanging in Italy and Spain, we believe it's due more to the universal feeling that global policy credibility has evaporated.

The world economic recovery has been on a "stop and go" journey since the Global Financial Crisis (GFC), with a series of geopolitical shocks and natural disasters upsetting investor confidence and risk appetite.

While the GFC was primarily a liquidity driven crisis, the recent sell-off is driven by a lack of confidence and poor sentiment.

The issue of restoring confidence will now be at the forefront of policy makers' and regulators' agendas and coordinated central bank responses have already begun.

There is no doubt investors need clarity around these issues to have confidence to turn around. However, making decisions around moving from growth to defensive assets must be viewed in light of the panic conditions we're experiencing. Maintaining a long-term view when it comes to investing has historically proven to be the best strategy for investors.